Te Rautaki Ahumoni 2024-34
Draft Financial Strategy 2024-34

Contents

Executive Summary

The Greater Wellington Region, Te Upoko o te Ika, makes up three percent of New Zealand's total land area, covering 8,111km2 of te Ika-a-Māui (North Island) and home to the capital, Wellington City. It is an ethnically diverse region and a rich fabric of culture and a rural environment that covers approximately 80 percent of the region. More than half a million people call this region home.

The objective of our Financial Strategy is to take a long-term sustainable approach to service delivery and financial management. This means focusing on ensuring our levels of service and activities are financed and funded to generate and protect community outcomes and promote long-term community well-being.

To protect and enhance this region, Greater Wellington revises its Long-Term Plan every three years. Planning for the next 10 years and beyond requires a look at the opportunities and challenges the region faces and consider how these may affect the way Greater Wellington activities are delivered. This Financial Strategy is an important component of the Long-Term Plan.

In planning for the next ten years, Greater Wellington has both a stable financial position and a well-balanced insurance strategy that will enable Greater Wellington to respond to the various challenges the region will face in the coming decades.

There is an ongoing need to ensure regional infrastructure is resilient, fit for purpose and supports various carbon reduction initiatives. The Financial Strategy has been developed to ensure the organisation not only supports the region through various challenges, but also thrives.

Greater Wellington's investment in emission reductions, such as the decarbonisation of public transport and investment in charging infrastructure, as well as the use of the Low Carbon Acceleration Fund to fast-track restoration and necessary carbon sequestration, are an essential form of prudent financial management by strategically reducing future costs.

Just over $1.7 billion is planned to be spent on infrastructure assets over the course of the 10-year period. The majority of the investments include:

- Public Transport CBD Layover
- RiverLink - Te Wai Takamori o Te Awa Kairangi
- Flood Protection and Control Works
- Johnsonville Transport Hub
- Porirua Interchange
- Real Time Information infrastructure (Replacement)

Over the ten years, Greater Wellington is also expecting to spend approximately $7.4 billion on operational expenditure for our activity groups and to fund projects such as:

- Public Transport National Ticketing Solution (Implementation)
- Recloaking Papatuanuku

Where projects provide intergenerational benefits, they will be predominantly debt funded. Greater Wellington will remain comfortably within debt limits throughout the 10-year period.

Introduction

Greater Wellington is required to prepare and adopt a Financial Strategy under section 101 of the Local Government Act 2002 (the Act). The purpose of the Financial Strategy is to:

- Facilitate prudent financial management by providing a guide to consider proposals for funding and expenditure against; and

- Provide context on our funding and expenditure proposals by making transparent the overall effects of those proposals on the local authority's services, rates, debt, and investments.

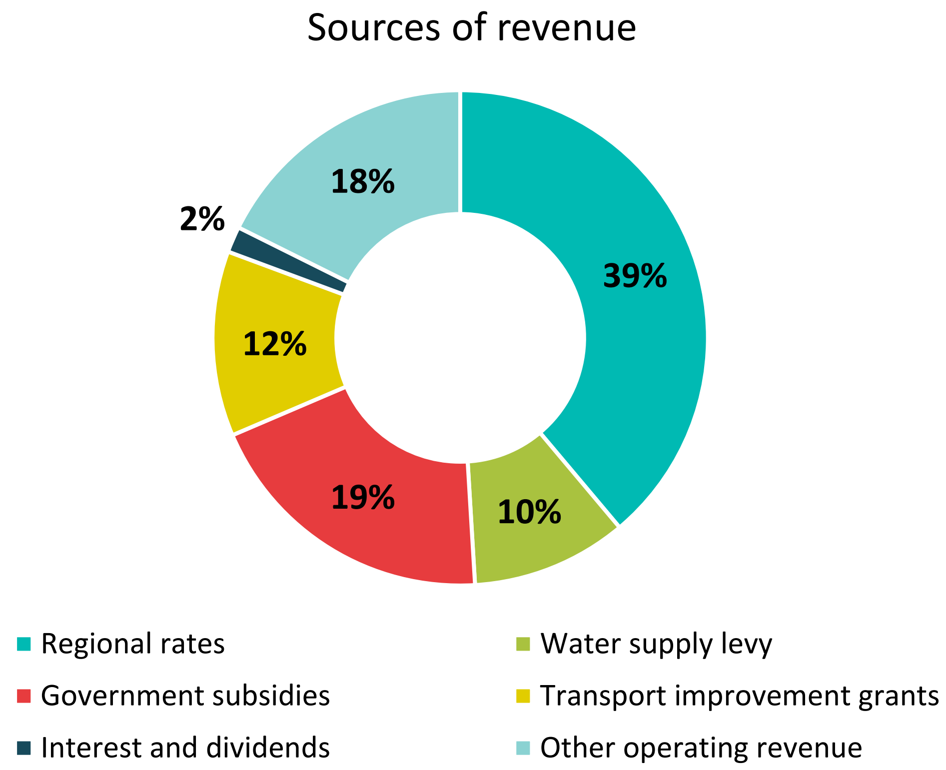
Greater Wellington's long-term credit rating has been assessed by Standard and Poor's (S&P) at AA+ with a negative outlook attached. At the same time as issuing this rating S&P unusually and importantly also released a report on the weakening of the Local Government Institutional Framework. This environment change had a significant influence on the negative outlook attached to our rating but has no impact on our ability to raise debt nor does it have an impact on our access to best rates with the LGFA.

S&P assessed Greater Wellington's financial management to be very strong in a global context and the AA+ rating is the strongest rating possible for local government.

At the time of preparing this Financial Strategy, Greater Wellington has a strong financial position.

From a funding perspective, Greater Wellington utilises a range of revenue sources which enables the organisation to minimise the funding burden on ratepayers as well as ensuring funding is more resilient to unforeseen events. The Revenue and Financing Policy outlines how and who pays for Greater Wellington activities.

HOW GREATER WELLINGTON WILL FUND OUR ACTIVITIES



This Financial Strategy has been carefully developed as part of a suite of strategies and policies (Infrastructure Strategy, Revenue and Financing Policy, Fees and Charges Policy and the Rates Remission and Postponement Policies) that contribute to successful financial management and community support, allowing for a fairer and more equitable approach for delivering the 2024-34 Long-Term Plan.

The Plan illustrates Greater Wellington's strategic direction to protect the environment while enabling sustainable economic development, working together with mana whenua and communities for the greater environmental good.

The Financial Strategy supports this strategic direction, ensuring a sustainable approach is taken to the region's financial management. Greater Wellington seeks to lessen rate increases by leveraging various funding levers and prioritising work streams.

The Infrastructure Strategy provides details regarding the level and timing of investment as well as the required rating and debt levels to fund these investments needed to improve 'levels of service', upgrade or replace existing facilities to meet additional demand from growth and/or enhance resilience to the impacts of climate change.

Together, the two strategies outline how Greater Wellington intends to balance investment in assets and services with affordability. In conjunction, Greater Wellington has reviewed the levels of service provided to ensure the right community outcomes are delivered.

2024-34 Long-Term Plan Supporting Polices & Strategies

Te Rautaki Ahumoni - Financial Strategy
This strategy takes a sustainable approach to service delivery and financial management, focusing on ensuring our levels of service and activities are financed and funded to generate and protect community outcomes and promote long-term community well-being, providing transparent context on our funding using rates, debt, and investments.

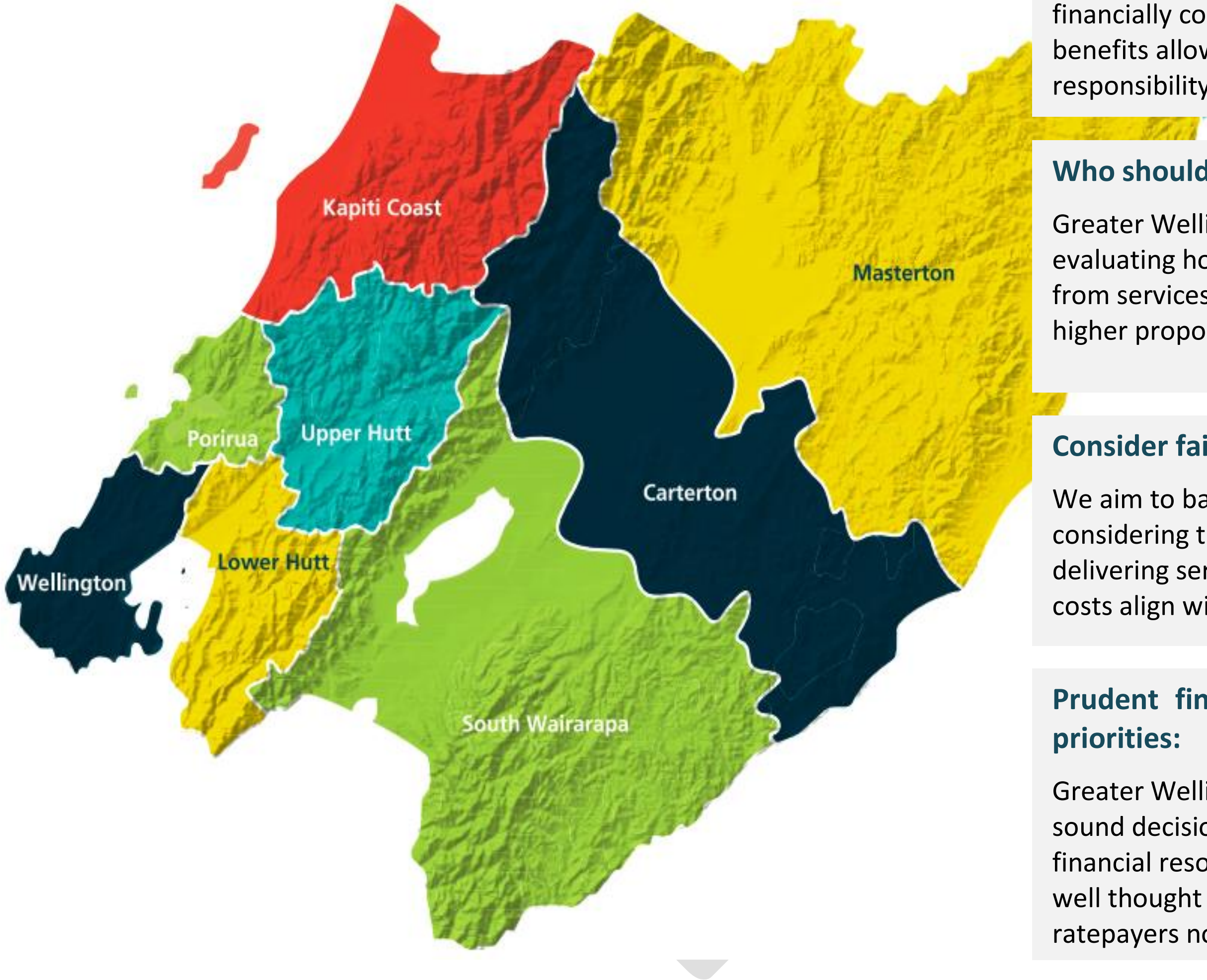
Te Rautaki Hanganga - Infrastructure Strategy
This Strategy sets out how Greater Wellington plans to manage infrastructure over the next 30+ years and defines the nature of the challenges, the approach and options for dealing with challenges and the implications of these actions while ensuring intergeneration equity.

Ko te Kaupapa Here Moni Whiwhi me Ahumoni - Revenue & Financing Policy
The Revenue & Financing Policy is about where the funding (money) will come from, and how Greater Wellington will share the costs of services across the region, and among different groups of ratepayers.

Fees and Charges Policy
This policy sets out Councils fees and charges to be collected from users of public resources, and to recover costs for a range of services, reducing the financial impacts to ratepayers.

Ko ngā Kaupapa Here Whakaiti me Hiki Reti - Rates Remission and Postponement Policies
These policies enable Greater Wellington to act fairly and reasonably when ratepayers are unable to pay their share of the rates.

Financial Strategy Guiding Principles



Using debt to fund projects with intergenerational benefits:

Greater Wellingtons approach ensures ratepayers who benefit from a project, financially contribute to it. Using debt to fund projects with intergenerational benefits allows us to increase service levels whilst ensuring the funding responsibility is spread across generations that benefit.

Who should pay based, where possible, on the distribution of benefits:

Greater Wellington Councillors consider who benefits from each activity when evaluating how to fund it. Councillors consider those who directly benefit from services or have the ability to benefit more and if they should pay a higher proportion of the costs of those services.

Consider fairness along with the ability of ratepayers to pay:

We aim to balance the requirement for public facilities and services while considering the impact on ratepayers. This involves evaluating the costs of delivering services against the benefits they provide and ensuring that the costs align with what ratepayers can afford.

Prudent financial management focused on achieving our strategic priorities:

Greater Wellington aims to practice good financial management through sound decision making. The decisions made focus Greater Wellington's financial resources on achieving the strategic priorities. All actions taken are well thought through to minimise the risks and appropriately allocate costs to ratepayers now and in the future.

Where we're at! - Regional Challenges and Opportunities

The following areas of change have been identified which may have significant impacts on Greater Wellingtons role, services, capability requirements or financial abilities. They are:

- **Partnerships with mana whenua and Māori**
- **Population and demographic changes**
- **Economic Challenges**
- **Responding to climate change**
- **Changes to Government and legislation**

Partnerships with mana whenua and Māori

The importance of working in partnership with mana whenua and Māori is significant. Greater Wellington is committed to improving opportunities for mana whenua and Māori to be meaningful partners in decision-making processes.

Greater Wellington will establish a Māori constituency for the 2025 local government elections. Forming a Māori constituency is another way a council creates opportunities for Māori to participate in its local decision making and to achieve shared aspirations alongside mana whenua.

Frameworks and models that incorporate mātauranga and te ao Māori are increasingly being used to inform environmental management, policy, processes and decision-making. Expectations to give adequate effect principles of Te Tiriti o Waitangi is also increasing.

Greater Wellingtons supports six mana whenua partners (Ngā Hapū o Ōtaki, Ātiawa ki Whakarongotai, Ngāti Toa Rangatira, Taranaki Whānui ki te Ūpoko o te Ika, Rangitāne ō Wairarapa and Ngāti Kahungunu ki Wairarapa) and their different views about where funding should be directed, projects they can contribute too, and how effective it will be for their communities.

Population and demographic changes

The region is expected to continue to experience steady growth, however since the population projections that informed the 2021-31 Long-Term Plan, growth has been reduced over the next few years. Current statistics estimates the region's population to be approx. 543,500 (June 2021) and increase to approx. 586,125 by 2030, 646,261 by 2040 and 707,800 by 2050.

The Wellington Region, just like many other places in the 'Organisation for Economic Co-operation and Development' (OECD), is experiencing an ageing demographic. Managing these impacts along with the need for higher immigration to bridge a growing skills gap will be challenging for the region and have several key financial impacts, such as:

- Their dependency on sufficient services, such as accessible public transport, emergency management or improved recreational opportunities in Regional Parks, all of which will require significant funding.

- Significant increases in funding needed to increase and extend current services, both in existing developed centres and new areas. This may require higher rates increases over the 30-year planning period. This may have rates affordability implications.

- New dwellings will increase the number of rateable units, spreading the costs among ratepayers. However if the development is sprawled, the increased pressure on infrastructure will continue to increase the demand for rates revenue.

Median population projections:

	History		**Final 2022 projections**			**Draft 2023 projections**			**Stats NZ**
	Population	Growth rate	Population	Change	Growth rate	Population	Change	Growth rate	Growth rate
	2021	2001-2021	2051	2021-2051	2021-2051	2051	2021-2051	2021-2051	2023-2048
Kapiti Coast	57,400	1.4%	83,000	25,100	1.2%	78,500	21,100	1.0%	0.3%
Porirua	61,100	1.1%	85,400	23,600	1.1%	80,900	19,800	0.9%	0.5%
Upper Hutt	47,300	1.1%	65,700	18,200	1.1%	63,000	15,700	1.0%	0.5%
Lower Hutt	112,200	0.6%	152,300	39,600	1.0%	147,100	34,900	0.9%	0.4%
Wellington	215,400	1.2%	274,600	57,900	0.8%	265,500	50,100	0.7%	0.5%
Masterton	28,400	1.0%	40,900	12,700	1.2%	41,800	13,400	1.3%	0.3%
Carterton	10,100	1.9%	14,900	4,800	1.3%	14,800	4,700	1.3%	0.5%
South Wairarapa	11,600	1.3%	16,800	5,100	1.2%	16,300	4,700	1.1%	0.4%
Greater Wellington	543,500	1.1%	733,600	187,000	1.0%	707,800	164,300	0.9%	0.4%

Economic Challenges

The New Zealand economy is facing an uncertain outlooking the wake of the COVID-19 pandemic, with a mixed performance across economic indicators forecasted, particularly in the short-term.

New Zealand’s gross domestic product (GDP) provides a snapshot of the performance of the economy (New Zealand's official measure of economic growth) and growth is forecasted to be slow over the short and medium term, but gradually recovering.

Unemployment is expected to rise from-near record lows. The degree to which unemployment rises is uncertain and will depend on how much economic conditions shift.

Price inflation has been at multi-decade highs, and interest rates have risen in an attempt to cool this inflation. This is expected to put huge pressure on the economy. While Treasury have commented the annual consumer price index (CPI) inflation has peaked, they forecast it will be relatively slow to fall away – not moving back inside the one to three percent target band until late 2024.

The economic conditions facing not only the Wellington Region, but also the country, will have several key financial impacts, such as:

- Increased costs for Greater Wellington – inflation, infrastructure components, labour, cost of debt servicing and general services.
- High levels of unemployment may cause financial hardship, reducing ratepayers ability to pay, increasing the volume of rates remission applications.
- A notable decrease in consumerism and business activity which will slow regional business, potentially impacting their ability to pay rates.
- A decrease in income and spending can impact the number of people using services such as public transport, or camping in regional parks, effectively decreasing revenue.
- Balancing affordability with community needs may impact levels of service.

Ongoing economic impacts from COVID-19

The COVID-19 pandemic has brought about changes in the economy not seen since the Global Financial Crisis in 2008. In the 2021-31 Long-Term Plan, Council developed a plan in a world with very low interest, inflation rates and a high amount of uncertainty, particularly regarding employment. Over the last three years there has been a significant change in the economy with inflation rapidly increasing from later 2021, peaking at 7.3 percent. Interest rates also increased in a similar fashion with the Official Cash Rate being lifted by the Reserve Bank to combat rising inflation to peak of 5.5 percent, from its low of 0.25 percent in October 2021.[1]

These factors have led to the situation where costs have escalated beyond what was planned in the 2021-31 Long-Term Plan. There is a risk that activity and inflation measures do not slow as much as expected or hoped for. Over the medium term, interest rates will remain at restrictive levels for some time until consumer price inflation returns to an acceptable target range of one to three percent per annum, while supporting maximum sustainable employment.[2]

Responding to Climate Change

Increased risk and costs from environmental change and natural hazards

Council has a mandated role to build resilience for our communities against natural hazards (incl. climate change). Greater Wellington declared a 'Climate Emergency' in 2019. Since then, council has not only set a path to reduce its own emissions but has also prioritised improving the Region's resilience to extreme weather events and slow-moving climate change impacts.

Our climate has already changed and will continue to change. The region will continue to experience more frequent and intense rainfall events, and longer duration and more

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[1] Reserve Bank of New Zealand

[2] https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/monetary-policy-statements/2023/august/mpsaug23.pdf

frequent drought events. The number of hot days will increase, and the number of frosts will decrease. There will be permanent sea level rise and more frequent and intense coastal flooding and erosion. Inland we will see more intense river flooding, and increased slips and landsides. The annual average temperature will also rise. The region will also continue to be at risk from adverse natural events including earthquakes, tsunami and, increasingly, wildfires – all pose threats to life, property and livelihoods. These impacts will present significant challenges for our region.

The changing climate will be costly, and have long-term economic impacts, therefore appropriate investment now in decarbonisation and restoration initiatives, as well as infrastructure is essential prudent financial management. Refer the Infrastructure Strategy for asset specific information.

To support investment, Greater Wellington has established the 'Low Carbon Acceleration Fund' (LCAF) which is designed to encourage Greater Wellington's activities to reduce emissions, putting it on track to achieve Council's carbon reduction goals. It funds activities or initiatives that reduce emissions more quickly or on a larger scale than otherwise possible.

Changes to Government and legislation

Changes in political leadership and or legislation have shifted policy priorities and the direction of government spending, including the financial support for local government to deliver essential services, such as public transport, or invest in future resiliency projects, such as 'RiverLink' and the now dissolved 'Let's Get Wellington Moving'.

Local Government is facing a significant period of reform or proposed changes, and a large-scale review. The impacts of such reforms span across governance structures, operational capacity, roles, responsibilities and financial capacity.

At the time of writing this strategy, the key government-led changes/reforms in motion are:

- The Future for Local Government Review
- The Resource Management Act
- The Land Transport Management Act
- The Civil Defence Emergency Management Act
- Local Water Done Well
- Government Policy Statement on land transport 2024 (GPS)

With the future of some of these changes unclear, Greater Wellington is preparing for a range of potential directions that government-led changes may take to reduce any financial or service delivery impacts they may have on the region.

What's the Plan?

Greater Wellington needs to invest in the Region's future, but this is not possible to maintain current investment levels and it will need to take steps now to provide maximum benefits for the future while carefully managing rates increases.

There are several key tools implemented to help manage rate increases, such as:

- Enforcing rates increase caps
- Generating and staging the use of reserves
- Using debt for intergenerational equity
- Use of investment dividends or the sale of assets
- Use of central government funding

Greater Wellington reviews the Treasury Policy and the use of funding mechanisms through the Revenue and Financing Policy to maximise the benefits of our activities with minimal impact to both current and future ratepayers. These mechanisms are:

- General Rates
- User fees and charges
- Grants and Subsidies
- Borrowing / Debt
- Investments
- Reserves
- Water Levies

The 'guiding principles' (page 8) of this strategy set the standard for which Greater Wellington uses for funding and expenditure decision-making processes.

Greater Wellington's credit lines and prudently managed debt, provides flexibility to respond to unforeseen impacts through borrowing for emergency response. In addition, some self-insurance is in place to help provide for emergency work if required. Greater Wellington is ensuring that current and future infrastructure is of sufficient standard to cater for the effects of climate change.

Increased lobbying and use of central government funding

The Local Government (Rating) Act 2002 provides councils with flexible powers to set, assess and collect rates from landowners. Nevertheless, rising costs and increasing demands for essential services along with changes in economic conditions has brought local government to the point where ratepayers find it increasingly difficult to afford it, and are becoming less accepting of rate increases.

As part of Greater Wellingtons financial strategy, council will encourage and support all measures to have additional and improved funding options including central government increasing its funding and support of local government. Without increased financial support, ratepayers will be overwhelmingly burdened with costs and collection of rates could become increasingly difficult.

Funding Greater Wellington Activities

Greater Wellington funds its activities through a range of sources and funding mechanisms. outlined in the Revenue and Financing Policy. The Policy is reviewed regularly to ensure Councillors determine how to fund an activity is current and fair.

When determining how to fund an activity, Councillors consider:

- Who benefits - the distribution of benefits between the community, any identifiable part of the community and individuals.
- When they benefit - the period over which benefits are expected to occur.
- The extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity.
- The overall impact of any allocation of liability for revenue needs on the community.
- The impacts of utilising funding mechanisms available to use, i.e., general rate, targeted rate etc.
- The most appropriate fees and charges strategy so that adequate funds are recovered to offset operational expenses.

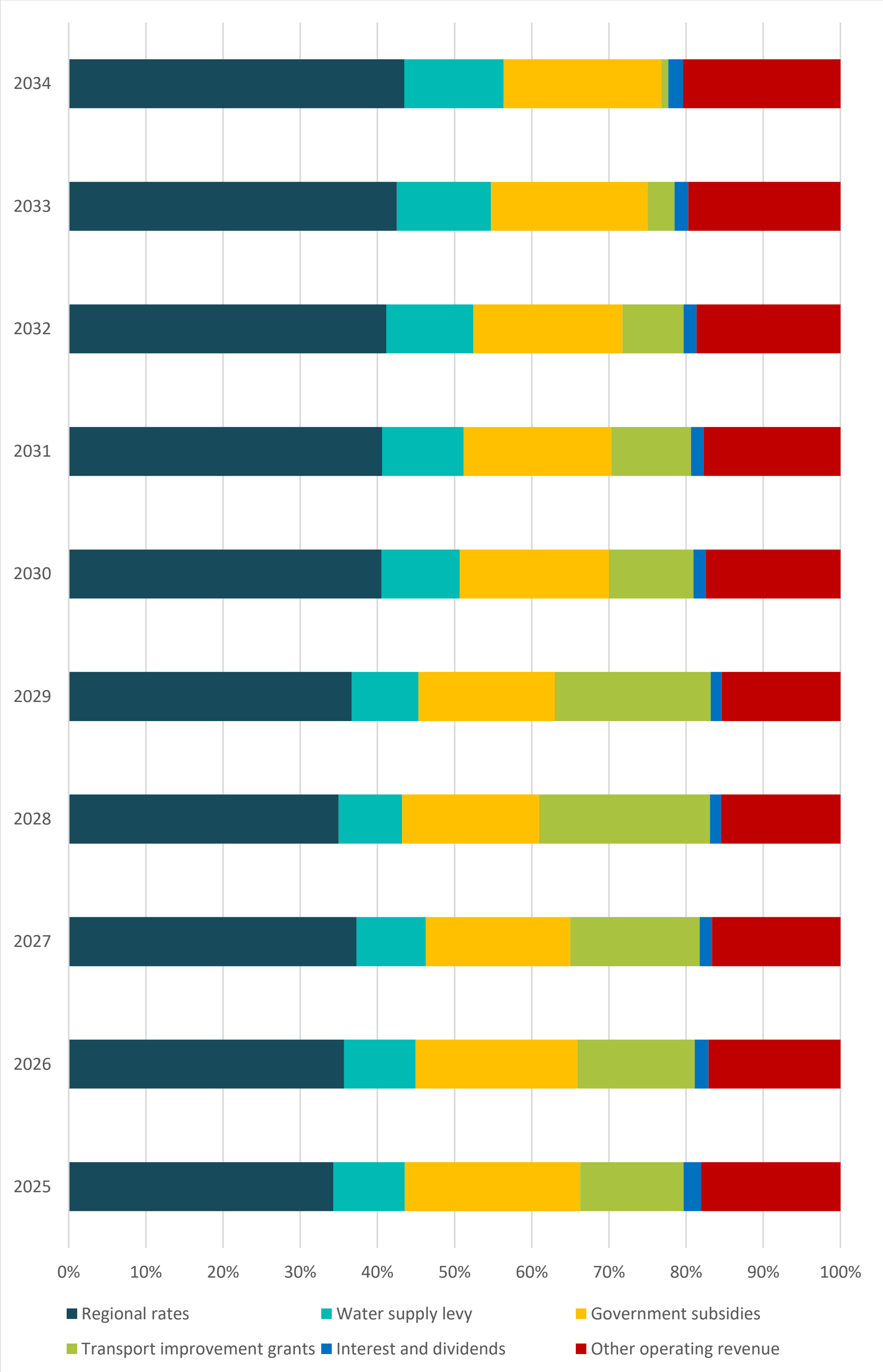
There are three key revenue sources in the Revenue and Financing Policy, they are:

- **Grants and Subsidies:** these are generally provided by central government to support key activities of significance, such as public transport. Government funding examples:
  - Waka Kotahi NZ Transport Agency
  - Ministry for Primary Industries
  - Ministry of the Environment
- **User Charges and Fees:** Wherever appropriate, users of services are charged. These fees and charges contribute to lessoning the burden on the rate payer. Note: The water Levy is a user charge based on volumetric use.
- **Rates:** Ratepayers pay for the remainder of the cost involved with delivering the activities. The portion of contribution from ratepayers depends on their location and value of their properties.

Other key areas for funding activities are:

- **Investments and dividends**
- **Other operating revenue**

SOURCES OF REVENUE OVER THE 10-YEAR PERIOD 2024-34



Rates

Greater Wellington seeks to balance the demand for additional work, regional economic development and long-term community well-being with ratepayers' willingness and ability to pay when setting rates each year. This involves both a complexity in calculation and a need for effective communication to ratepayers.

To ensure Greater Wellington can continue to deliver on the agreed planned programmes of work, rate increases are required as part of the Financial Strategy.

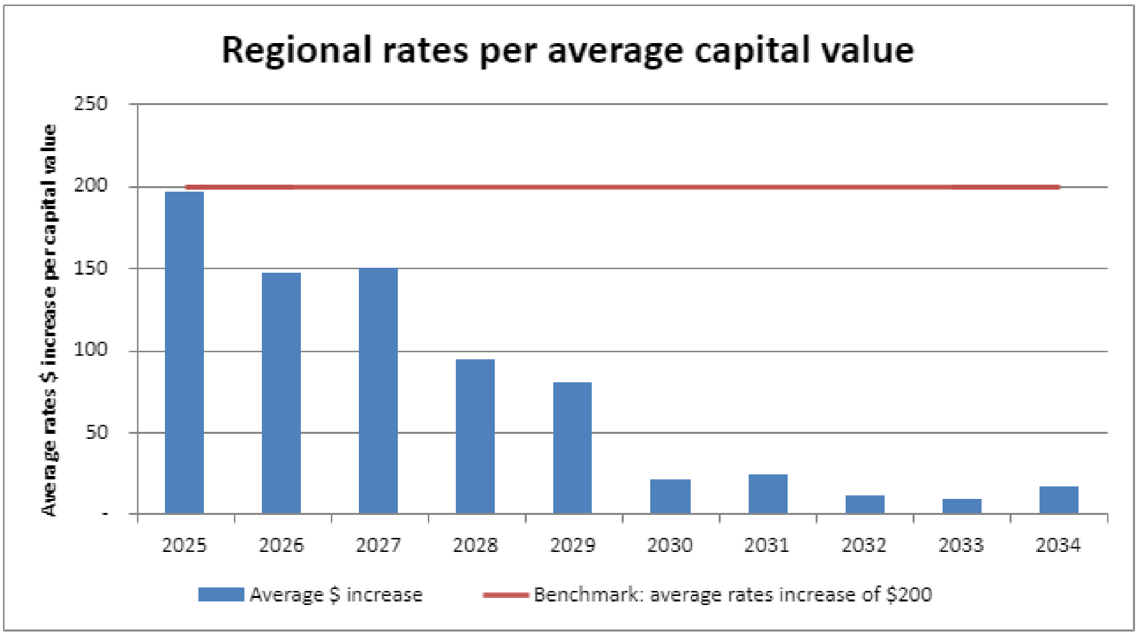
The increase in rates will result in rates collection increasing from $251 million in 2024/25 to $414 million by 2033/34 and represents an average region-wide annual rates increase of 64 percent. The average increase varies among the Territorial Authorities (TA's):

Average Annual Rates Increase 24/25			
Territorial Authority	**Residential**	**Rural**	**Business**
Wellington city	25%	21%	6% (CBD, 10%)
Hutt city	21%	20%	12%
Upper Hutt city	20%	21%	15%
Porirua city	27%	26%	34%
Kāpiti Coast district excl Ōtaki Residential	12%	23%	22%
Ōtaki Residential	17%	N/A	N/A
Masterton district	12%	27%	23%
Carterton district	14%	14%	16%
South Wairarapa district	12%	13%	13%
Tararua district	N/A	17%	N/A

LTP Years	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Average regional rates increase	19.8%	13.4%	13.4%	8.1%	6.8%	3.0%	3.1%	1.5%	1.5%	1.9%

To provide ratepayers with certainty regarding rates over the 10-year period we have set the following rate limits:

- Average Regional rates per ratepayer increase will be limited to $200 per annum.
- Total average rates revenue will comprise of approximately 39% of the Council's revenue requirements over the ten-year period.



Cost of Collecting Rates

The Territorial Authority's (TA's) in the Wellington Region collect rates on behalf of Greater Wellington. Greater Wellington pays a set collection fee for the services on a per rateable unit basis.

The cost of collecting rates per unit is steadily increasing to meet the increasing requirements and obligations for collecting revenue. This increase is set out in a five-year Memorandum of Understanding between the TA's and Greater Wellington. As the number of rateable units across the region increases, and the cost per unit increases, the overall cost of collection also increases.

As of 2024/25, the cost of collecting rates is approximately $2,600,000, and this is projected to increase to more than $3,200,000 by 2034.

The next review of the collection costs will take place before 30 June 2026 and will forecast the next five years of fees.

Surplus Operating Revenue

Council may generate operating surpluses due to factors such as sale of Council assets or increased rateable units throughout a financial year etc. The surplus varies from year to year and is not easily forecasted, however, council uses the revenue consistently to reduce future impacts to ratepayers.

Greater Wellington's "Treasury Risk Management Policy (Incl. Liability Management and Investments Policies)" outlines how this surplus revenue is managed. For more about the use of reserves, refer page 21.

Borrowing / Debt

Council generally secures its borrowing against the level of rates income. This borrowing is referred to as debt which is paid back over long periods of time.

The debt is used for intergenerational projects and ensures intergenerational equity is achieved by spreading the costs over the life of the asset. It also reduces volatility in our rates requirements and their absolute level.

Debt is managed within limits that are consistent with Local Government Funding Agency[3] (LGFA). These are set at prudent levels and within LGFA and credit rating agency requirements. This ensures we retain debt capacity for unexpected events and can maintain a sustainable level of borrowings over the long term.

Greater Wellington's Treasury Management Policy uses four different measures to limit the level of debt. The projected borrowings fall well within the limits set:

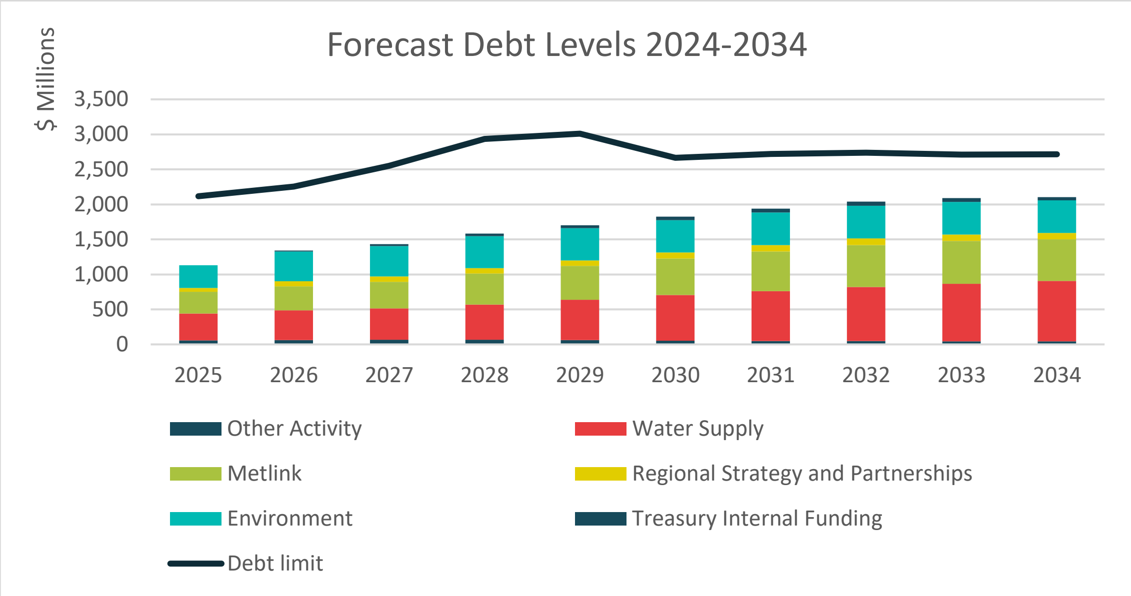
	2024/25	2025/26	2026/27	2027/28+
Net Debt / Total Revenue	<285%	<280%	<280%	<280%
Net Interest / Total Revenue	<20%	<20%	<20%	<20%
Net Interest / Annual Rates Revenue	<30%	<30%	<30%	<30%
Liquidity	>110%	>110%	>110%	>110%

External Borrowings

The financial strategy includes a $1.1 billion increase in borrowings over the Long Term Plan period, resulting in total outstanding borrowings of $2.1 billion by the end of the period. This is driven by the significant investments being made throughout the period.

The below charts outline the years of the proposed new borrowings, the programmes to be funded and our overall debt profile.

[3] The New Zealand LGFA is a Council-Controlled Organisation (CCO) operating under the Local Government Act 2002, specialising in financing the New Zealand local government sector. The primary purpose is to provide more efficient financing costs and diversified financing sources for New Zealand local authorities and council-controlled organisations. LGFA funds itself through domestic and international wholesale and retail debt capital markets, with the funds raised on-lent to participating borrowers, being New Zealand local authorities and council-controlled organisations.



Investments

Greater Wellington has a number of subsidiary entities that deliver services to the region, and these operate through a variety of structures. These organisations are 'Council-Controlled Organisations' as defined in the LGA 2002 (section 6).

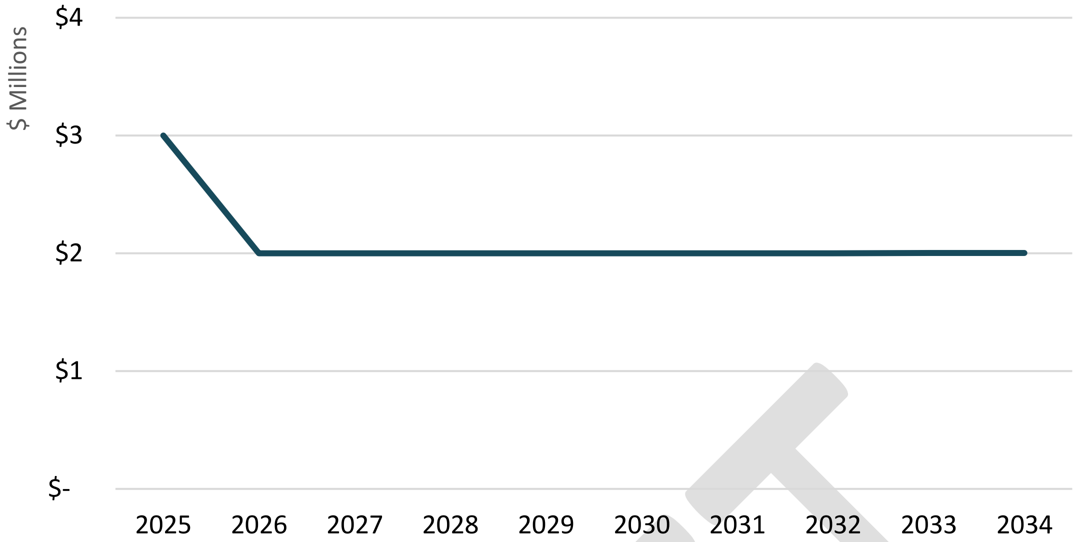
Investment income is used to reduce general rates and allows ratepayers to realise some of the benefits from the investment portfolio each year. This approach ensures intergenerational equity is maintained.

Investment income consists of returns from direct equity investments in Council-controlled Organisations, Council Controlled Trading Organisations, and holdings of financial assets, which assist Greater Wellington in achieving the objectives for the region.

Greater Wellington is a responsible public authority, therefore investments held are considered to be low risk. The primary objective when investing is the protection of investment capital and revenue generation. This means only investing with counterparties that are of sufficient financial strength, with approved, acceptable credit ratings.

Over the 10-year period, approximately $155 million of investment income is forecasted, with the largest contributor of dividends being CentrePort.

FORECASTED DIVIDEND INCOME OVER THE 10-YEAR PERIOD



Greater Wellington Equity investments

Equity Investment	Objectives	Target Returns
CentrePort Limited (CPL) 76.9 percent owned by Greater Wellington through WRC Holdings	CentrePort Dividend contribute to the general reserves and are used to smooth rates.	Dividends are paid to GWRC via WRC Holdings Limited after fees and charges. $21 million over 10 years
Greater Wellington Rail Limited (GWRL) 100 percent owned by Greater Wellington	Appropriate separation of management and governance. Imposing commercial discipline on the Group's activities to produce an appropriate return by ensuring appropriate debt/equity funding. Separating Greater Wellington's investment and commercial assets from its public good assets.	No dividend return on this investment.

Equity Investment	Objectives	Target Returns
Wellington Regional Economic Development Agency (WellingtonNZ) 20 percent Greater Wellington	WellingtonNZ is the key provider for economic development in the region, combined with tourism, venues and major events management for Wellington City.	No revenue return on this investment
New Zealand Local Government Funding Agency Limited (LGFA) 7.46 percent owned by Greater Wellington (at November 2023)	To ensure the LGFA has sufficient capital to remain viable, meaning that it continues it's ability to debt fund councils. Provide access to loan funding at competitive rates.	The company's policy is to pay a dividend that provides an annual return to shareholders equal to the LGFA cost of funds plus two percent. This equated to a $128k return in FY2023
Forestry Currently 6,000 hectares of forested land	Greater Wellington has been involved in forestry for many years, primarily for soil conservation and water quality purposes.	The cutting rights to these forests were sold for a period of up to 60 years in the 2013/14 year. Greater Wellingtons overall investment policy with regard to forestry is to maximise long-term returns while meeting soil conservation, water quality and recreational needs.
Liquid financial deposits Greater Wellington holds $33 million in liquid financial deposits as a result of selling our interest in CentrePort Limited to one of our wholly owned subsidiary, WRC Holdings Limited.	Greater Wellington holds these liquid financial deposits, taking into account the general provisions of our Treasury Management Policy.	$16.9m over 10 years

Equity Investment	Objectives	Target Returns
Contingency Investments for Flood Protection and Water Greater Wellington holds a number of short-term contingency investments.	They have been established with the purpose of having funds available to pay for the uninsured part of the damage to water supply and flood protection assets in case a disaster (earthquake, major floods etc.) strikes.	$38.5 million over 10 years

Subvention revenue

On 26 April 2023, the Greater Wellington Group (including WRC Holdings Limited and its wholly owned subsidiaries) and the CentrePort Consolidated Group ("Centreport Tax Consolidated Group") entered into a Tax Loss Sharing Agreement. Under the Tax Loss Sharing Agreement, the Greater Wellington Group will receive subvention payments from the Centreport Tax Consolidated Group, with the equivalent losses offset, where the companies elect to do so.

Greater Wellington will apply the subvention payments received to the General Reserve in order to reduce the rating impacts to ratepayers.

Greater Wellington received a subvention payment in 2024, for the first time since 2016.

Reserves

Reserves are generated funds from prior financial years and are used to fund expenditure at projected times over the 10-year period or to respond to emergency or unforeseen circumstances. Maintaining reserves is a prudent form of financial management used to either minimise volatility in annual rates movements or to help protect against the impact of unexpected events. This ensures we can maintain our usual service levels without putting pressure on debt and rates.

Reserves are not separately held in cash and funds are managed as part of Greater Wellington's 'Treasury Risk Management Policy (Incl. Liability Management and Investments Policies).

Councils' reserves are:

Area of Benefit Reserves	Surplus from targeted rates OR deficit held for future expenditure for that area	➢ Regional Parks Reserve ➢ Public Transport Reserve ➢ Transport Planning Reserve ➢ Regional Economic Development Reserve ➢ Iwi Reserve ➢ Wellington Region Emergency Management Office (WREMO) Reserve ➢ Catchment Scheme Reserves ➢ Land Management Reserves
Special Reserves	Funds set aside to smooth the costs of irregular expenditure over the long-term.	➢ General Reserve ➢ Low Carbon Acceleration Fund (LCAF) Reserve ➢ Election Reserve ➢ Long-Term Plan Reserve
Contingency Reserves	Funds set aside to reduce the impacts of unforeseen events.	➢ Environmental Legal Reserve ➢ Flood Contingency Reserves ➢ Rural Fire Reserve
Re-budgeted Reserves	Expenditure that has been rated in one year, but the activity is completed a following year.	➢ Re-Budgeted Reserve

Greater Wellington expects to start the long-term process with $27.5 million in reserves. The reserves will be progressively drawdown on or replenished when it is strategically sensible to do so.

Beyond that, Greater Wellington intends on increasing the financial reserves to reach $77.8 million by 2033/34.

The Low Carbon Acceleration Fund is vulnerable to market changes and potentially decreased value in the credits due to factors such as changes to government policy. These funds will have to be managed appropriately to avoid a dependency that may result in the need for rates to substitute for the shortfall.

Bulk Water Supply Levy

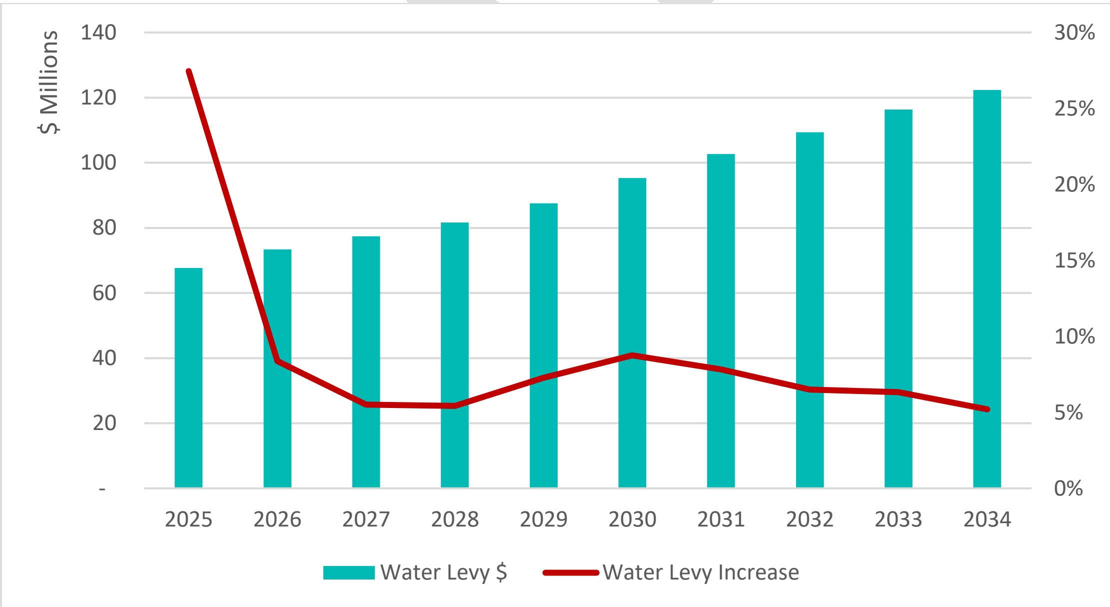
Greater Wellington owns the bulk water network which is managed by Wellington Water Limited (WWL) who then supply the drinking water to the shareholding councils: Wellington City, Hutt City, Upper Hutt City and Porirua City. This is funded via a water levy which is on charged to ratepayers through the shareholding councils.

Greater Wellingtons increases to the levies are determined by the budget presented to council by WWL. The increases are driven by major capital projects aimed to look after the existing infrastructure, reduction in water consumption activities, key water treatment plant resilience programmes and the extension of the bulk water network aligned with the City Council growth planning.

Funding increases will ensure reduction in service interruptions, lower risk of critical asset failure and maintenance of customer service.

The water levy is expected to increase on average by 9% per year over ten years. The average cost to deliver the bulk water supply over the next ten years is $93.4 million per year.

BULK WATER SUPPLY LEVIES OVER THE 10-YEAR PERIOD

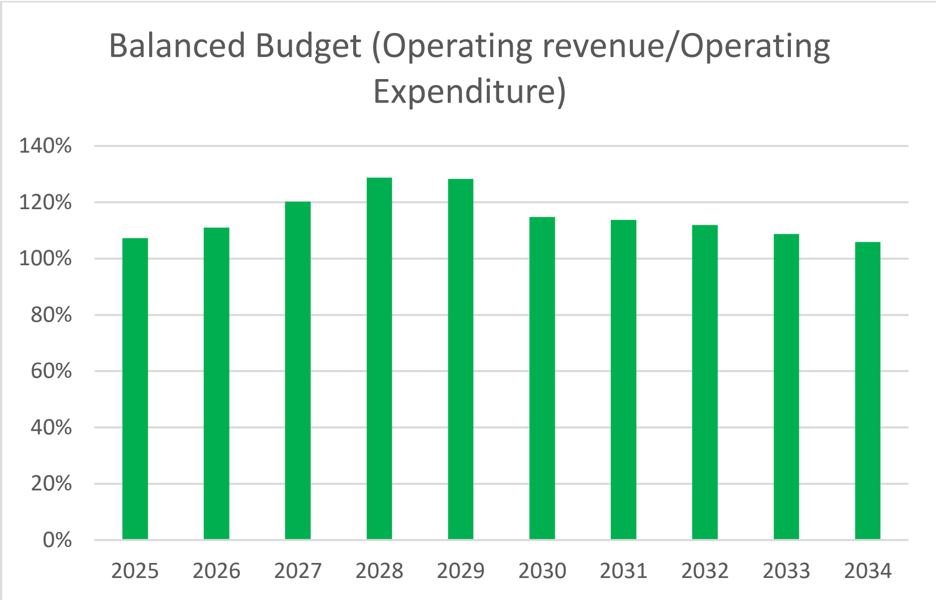


The water levy percentage increase follows a similar pattern to the LTP average rates percentage increases with it being high in 2024/25. The driver for this is since our 2021-31 Long Term Plan we have seen inflation and interest rates reach levels that no one anticipated. The impact of this has put significant pressure on the first year of our 2024-34 Long Term Plan.

Insurance is another factor putting pressure on our rates. Since Cyclone Gabrielle we have seen double-digit increases in our insurance premiums with further increase expected.

Balanced Budget

Greater Wellington is plans to have a balanced budget throughout the 2024-34 Long Term Plan as required in section 100 of the Local Government Act. The balanced budget ensures that there is revenue to cover the operating expenses and does not cause a budget shortage.



What will Operating and Capital Expenditure Look like?

Operating Expenditure

Operational expenditure is generally funded by rates, levies, grants and subsidies and user charges and fees. Where it has intergenerational benefits, it can be debt funded.

The total operational expenditure, including overheads, is forecast to be approximately $7.4 billion over the 10-year period. The majority of operational expenditure is in Metlink public transport. It is projected that $4.7 billion will be required over the next ten years to operate the network.

Operational expenditure is also expected to increase in the bulk water supply and flood protection activities due to ongoing maintenance and servicing borrowings for capital expenditure aimed at improving resilience and reducing the impact of climate change.

OPERATING EXPENDITURE BY ACTIVITY OVER THE 10-YEAR PERIOD

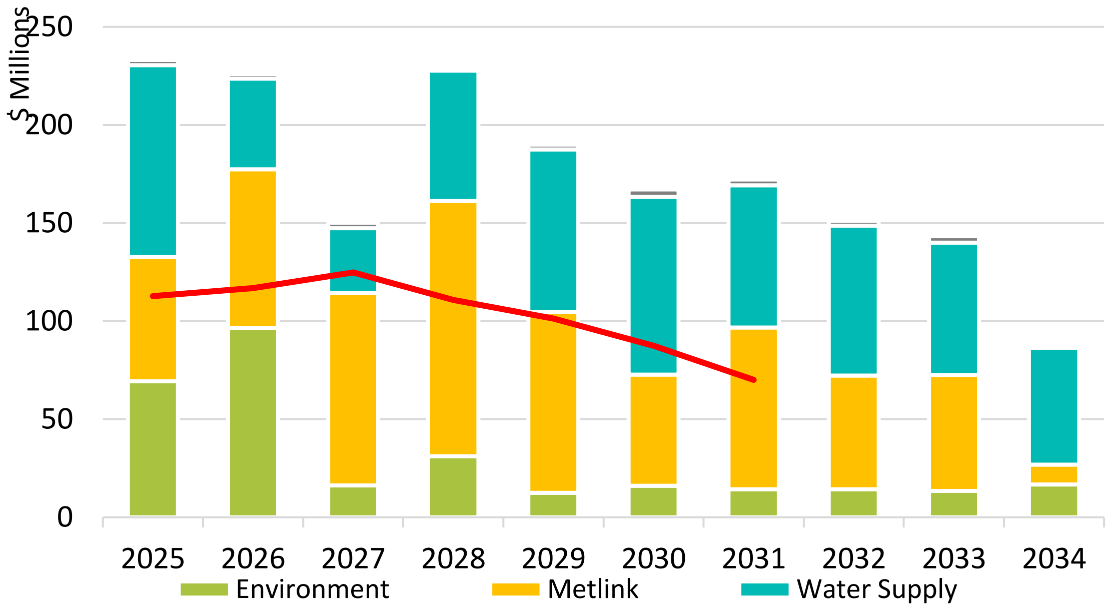
Capital Expenditure

We categorise capital expenditure into asset renewals, service levels (i.e., new assets to improve existing services) and growth (i.e., new assets to support regional growth). Capital expenditure is funded through the following mechanisms:

- Borrowings (debt)
- Grants and Subsidies
- Asset sale proceeds
- Reserve funds

Capital expenditure with long term (intergenerational) benefits will be funded through debt in the first instance. Large capital expenditure investments are predominantly in Metlink, bulk water supply and flood protection programmes of over the 10-year period. Total capital expenditure over the 10-year period is just over $1.7 billion. The below chart details activity groups' capital expenditure by category over the course of the 10-year period.

CAPITAL EXPENDITURE BY ACTIVITY OVER THE 10 YEAR PERIOD (excluding Greater Wellington Rail Limited)

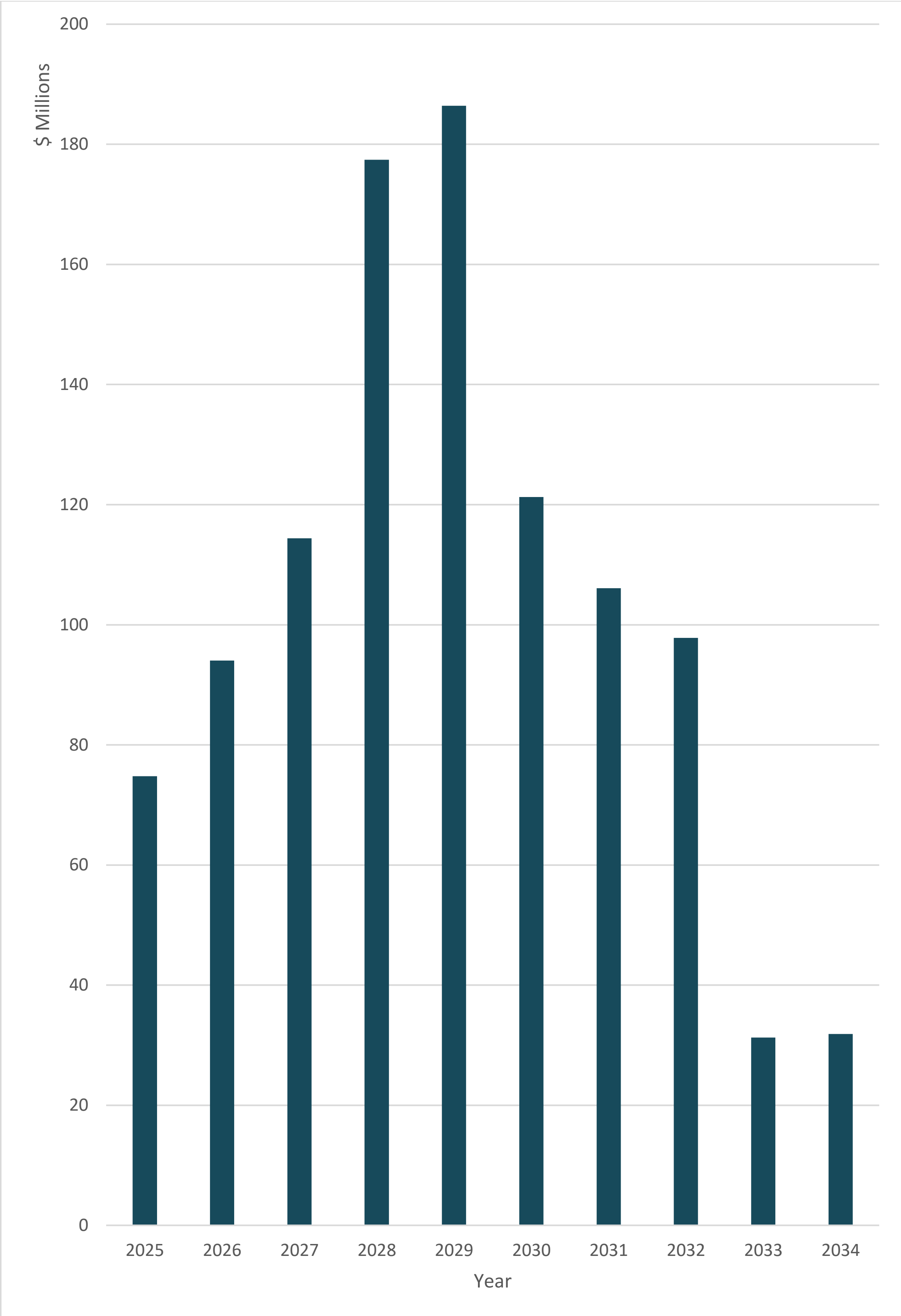


Year by year investment refer asset renewal (infrastructure strategy).

Greater Wellington Rail Limited

Greater Wellington Regional Council is the sole shareholder (owner) of WRC Holdings Ltd, which in turn owns 100 percent of Greater Wellington Rail Ltd. As it is a Council-Controlled Organisation, the capital expenditure investment has been presented separately to the Greater Wellington activities capital expenditure.

INVESTMENT IN GREATER WELLINGTON RAIL LIMITED OVER THE 10-YEAR PERIOD



How our investment in assets will look like – Infrastructure Strategy

Asset Renewals

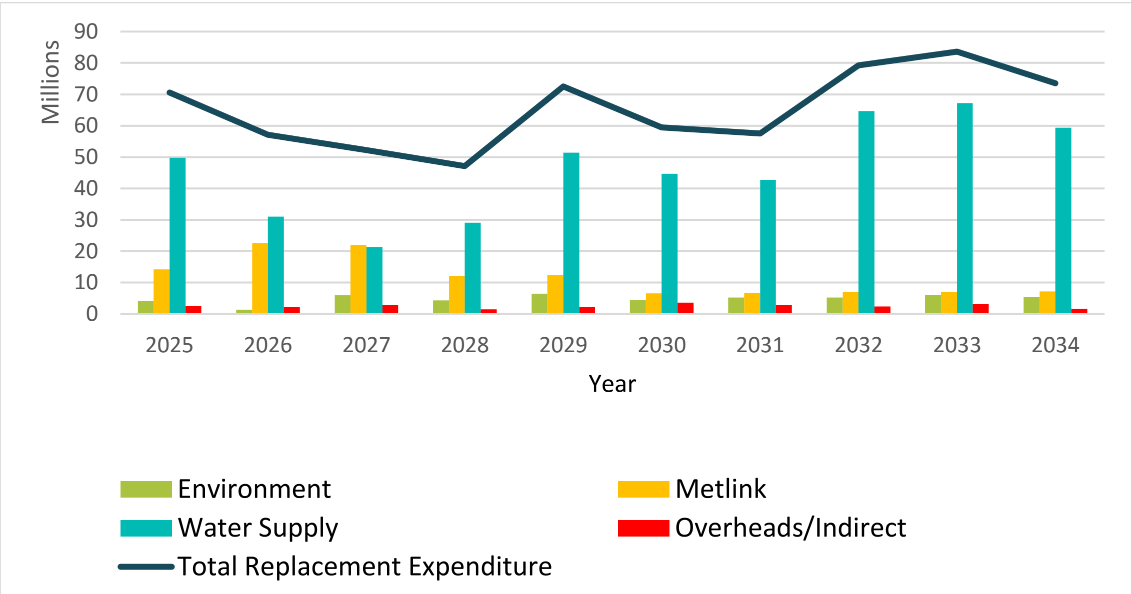
We continue to replace and renew our existing assets to ensure they are fit for purpose and deliver effectively. An important aspect of our asset renewal program is ensuring expenditure results in assets becoming more resilient to the impacts of climate change.

Greater Wellington is responsible for $2.2 billion of assets. The total asset renewal expenditure (excluding Greater Wellington Rail Limited and Centreport Limited) is forecast to be $652 million over the 10-year period. The key asset renewals over the period include:

- Public Transport
- Bulk Water Supply

Note: The LTP is signalling a large investment required for bulk water storage in the near future, beyond 2034, At this stage, investigations and feasibility studies need to be completed before any investment decisions can be made.

ASSET RENEWAL EXPENDITURE BY ACTIVITY OVER THE 10-YEAR PERIOD



Regional Strategy and Partnerships has minor asset renewal values, valued at a total of $160,000 over the 10-year period.

Please refer to the Infrastructure Strategy for Greater Wellington Rail Limited asset renewal and investments.

Levels of Service

Levels of service are what we have agreed to deliver to and on behalf of the community. These services are set in the Long-Term Plan and are the response to both statutory requirements and community's request.

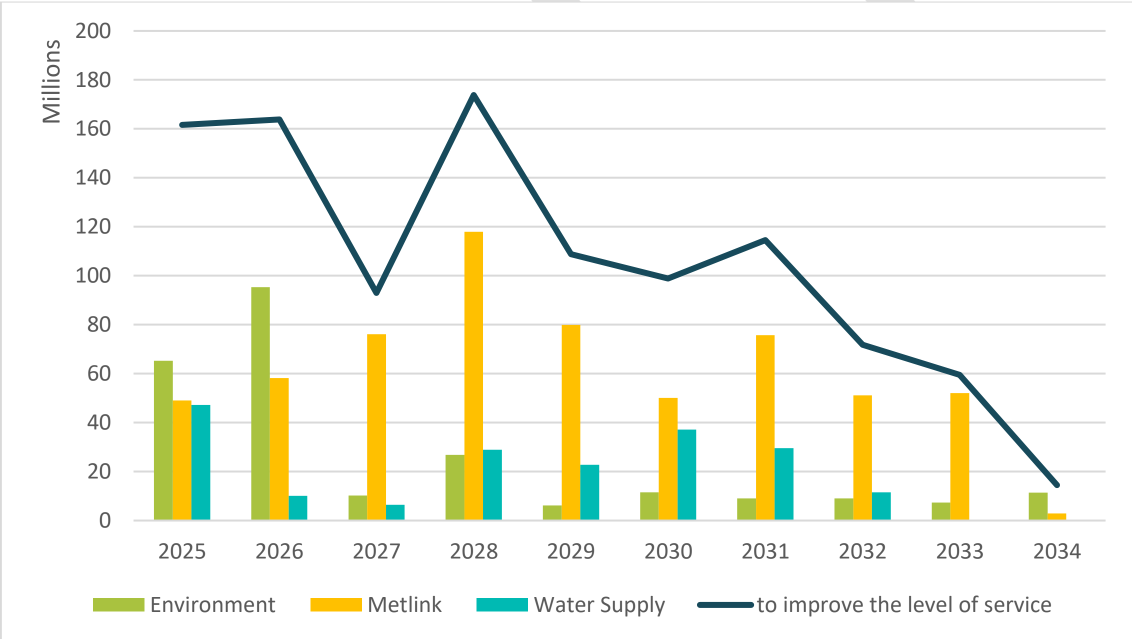
Over the 10 years of the Plan there are large priority infrastructure investments planned, achieving increased levels of service and maintaining and renewing capital programmes.

Increasing levels of service delivery often comes at a significant cost and due to Greater Wellingtons controlled spending ideology, there is little ability to significantly change or increase levels of service targets over the next ten years. Council has focused on meeting the current levels of service and the statutory requirements before considering increasing other levels of service.

Total service level capital expenditure over the 10-year period is $1.1 billion. The significant changes to levels of service would be Riverlink and a move to increase Council control of public transport assets such as depots and charging infrastructure.

LEVEL OF SERVICE EXPENDITURE BY ACTIVITY GROUP OVER THE 10-YEAR PERIOD[4]

How we will manage funds and reporting



Security for Borrowings

Greater Wellington uses a Debenture Trust Deed to grant security to our lenders when borrowing funds. Under the Deed, the borrowings and interest rate risk management instruments are secured by way of a charge over rates and levy revenue under the LGA 2002. The security offered by Greater Wellington ranks equally with lenders.

[4] Regional Strategy and Partnerships has minor 'Level of Service' expenditure, valued at a total of $563,000 over the 10-year period.

Physical assets will be charged only where:

- There is a direct relationship between the debt and the purchase or construction of the asset it funds (such as an operating lease or project finance)
- Where security interests are leases or retention of the arrangements which arise under the terms of any lease or sale and purchase agreement
- We consider a charge over physical assets to be appropriate

Financial Risk Management

Greater Wellington provides a range of critical services to our community. To ensure the continuity of these services, there is a need for financial risk strategies to reduce the financial impacts of unplanned events.

Insurance is an important strategy which involves transferring risk to an external insurer. Insurance costs are increasing, with climate change impacting on insurers abilities to predict losses, which has seen returns lower to levels below ‘low risk’ investments such as bonds. This has strained insurance capacity resulting in brokers having to seek out new markets. This resulted in annual premiums increasing more than 30 percent in 2023 for material damage policies, with premiums expected to increase by 10-20 percent annually for the foreseeable future. The result, material damage insurance is less affordable and as a result Greater Wellington is investigating using more self-insurance.

Greater Wellington’s approach to insurance is to focus on the effects of low probability, high impact events. The results of climate change impacts the costs and the ability to insure certain assets. Consideration has been given to the types of assets we self insure and the level of insurance we hold based on events such as fire, storms and earthquakes etc. There may be a point in time when insurance cannot be obtained for certain assets and Greater Wellington will need to consider whether further self insurance is required for these assets.

Greater Wellington’s current cover does not insure all assets but uses modelling to determine the appropriate level of insurance based on the maximum probable loss event such as an earthquake. It is unlikely all assets would simultaneously be affected by an unplanned event. The annual budget provides funding for repairs as a result of smaller, more frequent events.

Greater Wellington self-insurance is funded through cash deposits and reserves, based on our hazard events assessment (refer the Long-Term Plan). The gap between this amount and the maximum probable loss may be covered by a mix of insurance, borrowing and government assistance.

The optimal level of insurance cover for Greater Wellington assets is determined by:

- **Asset criticality** – non-critical assets may not be insured or have reduced cover.
- **The asset type** – Greater Wellington self-insures stopbanks, fully insures boats and motor vehicles and have loss limits in place for other assets.
- **Loss limits for these assets**- Greater Wellington insures on the basis of the maximum probable loss event, such as an earthquake or a tsunami.
- **Disaster recovery reserves** – investments or loans available to respond to unplanned events.

National Recovery Plan – central government funding available to help with the recovery of critical assets and services.

Monitoring and Reporting

The Financial Strategy is essential to decision making process across the organisation. All council and committee reports are required to declare in the report the summary of considerations.

Quarterly reporting and annual reports are produced to report on recent financial performance, including operational and capital expenditure, revenue and funding, and progress against the organisation strategic outcomes and performance measure.

The Finance, Risk and Assurance Committee is regularly updated about financial and risk matters and the alignment with the financial strategy.

Definitions

Total Revenue

Defined as cash earnings from rates, grants and subsidies, user charges, interest dividends, financial and other revenue and excludes non-government capital contributions.

Net Debt

Defined as total debt less liquid financial assets and investments. Liquidity is defined as external debt plus committed loan facilities plus liquid investments divided by external debt.

Net Interest

Defined as the amount equal to all interest and financing costs less interest income for the relevant period.

Annual Rates Income

Defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).